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ONE HUNDRED TENTH CONGRESS

U.S. House of Representatives Committee on Energy and Commerce Washington, DC 20515-6115

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July 12, 2007

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> The Honorable David M. Walker Comptroller General United States Government Accountability Office 441 G Street, N.W. Washington, D.C. 20548

Dear Comptroller General Walker:

As Congress focuses on mechanisms that would potentially reduce greenhouse gases and provide incentives for creating and adopting low carbon technologies, attention should be directed at issues raised by the European Union Emissions Trading Scheme (ETS) and international arrangements such as the Kyoto Protocol's Clean Development Mechanism (CDM).

A number of news reports have identified problems and issues that underscore the need for close scrutiny of the international experience. For example, late last year *The New York Times* reported one case in which a particular Chinese factory participating in the CDM could incinerate its greenhouse gas waste for about \$5 million, while the CDM subsidy was around \$500 million – indicating a massive waste of resources. And the gas incinerated was HFC-23, not even CO₂, the ostensible chief target of the CDM set-up. More recently, the BBC reported that over-allocation of emissions credits in the ETS led to eventual collapse in prices and the "virtual destruction of the power of the market to incentivize carbon reduction." Nations such as Germany have sought to opt out new power generation, including coal-fired power, from the next round of emissions controls.

Meanwhile, news reports in the *Financial Times* and elsewhere have raised questions about the cost-effectiveness or integrity both of carbon offset programs and cap and trade. The Government Accountability Office December 2003 report for The Committee on Energy and Commerce on international emissions reporting also raises questions that can be applied to the verification and validation of international emissions trading. (See "Climate Change: Selected Nations' Reports on Greenhouse Gas Emissions Varied in Their Adherence to Standards.")

We request that the GAO examine issues raised by examples such as the above. In addition, we would like you to address the following questions to assist us in our deliberations:

- 1. How well do existing international systems actually control greenhouse gases, including the Clean Development Mechanism, Joint Implementation, and the European Union's Emissions Trading Scheme under the Kyoto Protocol?
 - O What has been the measurable effect of ETS and CDM on research and development or implementation of technologies to reduce carbon emissions? If the effect is not measurable, can the effect be characterized?
 - o Is there any evidence of "leakage" of emissions and conscious gaming of existing systems like CDM? Is there a reason to be concerned about such manipulation?
 - O How well do existing procedures for measuring and validating emissions reductions work to prevent fraud and abuse and to assure "additionality" of emission reduction, *i.e.*, that emissions reductions are in addition to what would have occurred absent the system? In particular, a comparison of the procedure at the Chicago Climate Exchange and other voluntary exchanges, the CDM, and the ETS would be helpful.
 - O What potential exists for price manipulation in emissions trading markets, especially ones involving many different countries? And how is such manipulation prevented?
- 2. Does the available information substantiate the net benefits of these programs? What is the distribution of costs and benefits across industry sectors and national boundaries?
 - O What are the reasons for the volatility in the ETS prices? How did that volatility affect consumers? And could we expect the same under a U.S. emissions trading system?
- 3. What lessons can be learned from these arrangements for informing Congressional deliberation and U.S. participation in international climate change partnerships?

Thank you for your prompt attention to this request. Please work with Mr. Peter Spencer of the Minority Committee Staff at (202) 225-3641 on the specifics of your study.

Sincerely,

Joe Barton

Ranking Member

Ed Whitfield

Ranking Member

Subcommittee on Oversight

and Investigations

The Honorable David M. Walker Page 3

The Honorable John Dingell, Chairman Committee on Energy and Commerce cc:

The Honorable Bart Stupak, Chairman Subcommittee on Oversight and Investigations